City Fiscal Reserve Funds

The State of Washington permits the City to maintain two financial reserves to draw upon in the event of certain unanticipated expenditure or revenue pressures.

Emergency Fund

Under the authority of RCW 35.32A.060, the City maintains the Emergency Fund (EMF) of the General Fund. The EMF is the principal reserve for the City to draw upon when certain unanticipated expenses occur during the fiscal year. Eligible expenses include costs related to storms or other natural disasters. State law limits the amount of money the City can set aside in this reserve to 37.5 cents per $1,000 of assessed value of property within the city.

Prior to 2017, the City's practice had been to fully fund the emergency reserve to this maximum limit. In 2017, the City modified the existing financial policies for the EMF to establish a minimum balance of $60 million, and to adjust that minimum each year with the rate of inflation. This policy struck a balance between ensuring that resources will be available to address unanticipated expenditures and making resources available to address current needs.

Due to the ongoing COVID-19 pandemic and related economic downturn, the City's medium-range revenue forecasts remain significantly reduced from prior expectations; concurrently, the City continues to realize significant expenses to address the ongoing emergency. In response, the City has drawn $31.3 million from the EMF over the last two years, reducing the reserve balance to $33.7 million.

In the current environment, it is not realistic for the City to meet the fund balance requirements for the Emergency Fund in the immediate future, and current policy does not define a process for rebuilding the reserve after a significant drawdown of funds. Legislation submitted with the 2022 Adopted Budget updates the EMF policy to require that the Emergency Fund be replenished to the target balance within a period of five years, sooner if practically possible. Based on current CPI-U projections, the updated policy would require the EMF to reach a $77 million balance by the end of 2026. The 2022 Adopted Budget contributes $10 million the EMF, rebuilding the reserve balance to $43.7 million at the end of 2022.

Revenue Stabilization Fund

Under the authority of RCW 35.21.070, the City maintains a second financial reserve called the Revenue Stabilization Fund (RSF), also known as the Rainy Day Fund. The RSF provides resources for the City to draw upon to maintain City services in the event of a sudden, unanticipated shortfall in revenue due to economic downturns or other factors. City code limits the balance of this reserve to five percent of General Fund tax receipts. Ordinance 123743 requires the City to deposit an amount equivalent to 0.5% of General Fund tax revenues into the RSF, with some limited exceptions. In addition, City policy requires the deposit of 50% of any unplanned year-end fund balance in the General Fund into the RSF. The RSF has a fund balance cap equal to five percent of total annual General Fund tax revenue.

The City adopted significant RSF funding enhancements in 2011 via Ordinance 123743, including the required annual deposit of 0.5% of General Fund tax revenues into the RSF. These changes enabled the City to rebuild the Rainy-Day Fund reserves that had been spent down in 2009 and 2010 in the midst of the Great Recession. The new policies facilitated the rebuilding of this reserve fund from a low of $10.5 million in 2010 to $60.8 million by 2020. Additionally, the policies specified that contributions to the fund are suspended when tax revenues decline and are reduced to 0.25% in the following year.

In response to ongoing COVID-19 emergency and related economic downturn, the City has withdrawn $54.7 million from the RSF over the last two years, reducing the reserve balance to $6.0 million. City policy requires a contribution of $3.1 million dollars in 2022. The 2022 Adopted Budget exceeds this requirement, contributing $15.4 million and rebuilding the RSF reserve balance to $21.4 million.